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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 IO-13 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 PA-02 PRS-01 L-03 HEW-06 /117 W
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P R 231330Z MAR 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC PRIORITY 3508
TREASURY DEPT WASDC
US MISSION EC BRUSSELS 8115
AMCONSUL MILAN
AMCONSUL NAPLES
USMISSION OECD PARIS

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E.O. 11652: N/A
TAGS: EFIN IT
SUBJ: TEXT OF GOI NOTE DESCRIBING IMF LETTER OF INTENT

1. FOLLOWING IS TEXT OF DOCUMENT PUBLISHED BY /LA REPUBBLICA MARCH 22. / LA REPUBBLICA CLAIMS THAT DOCUMENT IS ACTUAL TEXT OF DRAFT LETTER OF INTENT TO IMF. HOWEVER, EMBASSY ISRELIABLY INFORMED THAT DOCUMENT IS ACTUALLY NOTE PREPARED BY GOI FOR DISTRIBUTION TO POITCAL PARTIES.
IN CONNECTION WITH CONSULTATIONS HELD ON MARCH 21 AND 22. WHILE DOCUMENT IS ACCURATE OUTLINE OF CONTENT OF LETTER OF INTENT DEALING WITH ALL ITEMS IN LETTER OF INTENT, IT IS A PARAPHRASE AND NOT A COMPLETE TEXT.

2. BEGIN TEXT. THE PROGRAM WHICH THE ITALIAN GOVERNMENT PROPOSES TO THE IMF IN ITS LETTER OF INTENT IS AIMED AT REDUCING ITALY'S RATE OF INFLATION APPROXIMATELY TO THAT PREVAILING IN INDUSTRIAL COUNTRIES WITH STABLE CURRENCIES (THE US AND GERMANY) AND, IN THIS WAY AT RECREATING THE CONDITIONS NECESSARY FOR A SUSTAINEBLE
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RECOVERY OF INVESTMENT AND EMPLOYMENT.

3. AN INDISPENSABLE ELEMENT OF THIS PROGRAM IS THE ELIMINATION OF THE DEFICIT ON THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS. ALSO, IT APPEARS NECESSARY TO ACHIEVE A MODEST SURPLUS ON THE CURRENT ACCOUNT WHICH WOULD PERMIT A PROGRESSIVE RDUCTION IN ITALY'S LARGE FOREIGN DEBT AND, IN THE SHORT RUN WOULD MAKE POSSIBLE

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THE RE-FINANCING OF THAT DEBT.

4. THE MEASURES FOR ACHIEVING THESE OBJECTIVES ARE:A) CONTROL OF BOTH THE DEFICIT AND THE LEVEL OF EXPENDITURES OF THE PUBLIC SECTOR FOR THE PURPOSE OF REDUCING DOMESTIC DEMAND IN THE SHORT TERM AND IN THIS WAY OF CONTROLLING IMPORTS AND THE BALANCE OF PAYJENT AND IN THE MEDIUM TERM, OF CREATING THE CONDITIONS NECESSARY FOR AN EXPANSION OF PRODUCTIVE INVESTMENT; B) A RIGOROUS CREDIT POLICY WHICH WILL PREVENT CAPITAL OUTFLOW AND CONTROL THE ACCU-MULATION OF INVENTORIES WITHIN LIMITS NECESSARY FOR THE CONTINUATION OF THE PRODUCTIVE PROCESSES. IN THIS WAY BY ACTING ON THE FOREIGN BALANCE AND SUPPORTING THE FOREIGN VALUE OF THE IRA, THIS WILL CONTRIBUTE TO STABILIZATION OF DOMESTIC PRICES; C) ACTION AIMED AT REDUCING LABOR COSTS IN ORDER ON THE ONE HAND, TO REDUCE INFLATIONARY PRESSURES ARISING FROM THAT SOURCE AND, ON THE OTHER TO CREATE SOUNDER FINANCIAL CONDITIONS FOR THE DEVELOPMENT OF PRODUC-TIVE INVESTMENT.

5. IN PROPOSING THE OBJECTIVES AND POLICY INSTRUMENTS OUTLINED ABOVE, THE IMF MISSION, ALSO IN COMPLETE AGREEMENT WIT THE ITALIAN DELEGATION, HAS IDENTIFIED THE EXCESSIVE GROWTH OF THE DEFICIT OF THE PUBLIC SECTOR, WITH ITS CONSEQUENT EFFECTS ON HOUSEHOLD INCOME AND PRIVATE CONSUMPTION, AS WELL AS THE MECHANISM OF ALMOST COMPLETE INDEXATION OF WAGES AS THE TWO FUNDAMENTAL CASES WHICH HAVE CREATED A SITUATION OF EXCESS DEMAND COMPARED TO THE RESOURCES WHICH CAN BE PRODUCED BY THE ECONOMY AND WHICH IN THIS WAY LEAD TO BALANCE OF PAYMENTS DEFICITS AND RISING PRICES.

6. IT SHOULD BE RECALLED THAT THE DEFICIT OF THE PUBLIC SECTOR
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INCLUDING THE INCREASE IN ITS RELATIONSHIP TO GROSS NATIONAL PRODUCT AND THE DEGREE OF INDEXATION OF DEPENDENT WAGE INCOME HAVE GROWN SINCE THE ENERGY CRISIS AND THE INCREASE IN PETROLEUM PRICES, BY REDUCING THE AMOUNT OF RESOURCES AVAILABLE HVE CREATED A NEED TO LIMIT GLOBAL DEMAND.

7. THE LINES OF ECONOMIC POLICY PROPOSED BY THE IMF APPEAR SUBSTANTIALLY TO CONFIRM THOSE OUTLINED BY THE GOVERNMENT IN ITS FORECAST AND PLANNING REPORT OF LAST SEPTEMBER AND WHICH HAVE SINCE BEEN PURSUED BY THE GOVERNMENT. THE IMF MISSION HAS LIMITED ITSELF TO INDICATING ITS PREFERENCES AS TO ACTIONS AND POLICY INSTRUMENTS WHICH ARE APPROPRIATE FOR GUARANTEEING THE PURSUIT OF THAT LINE OF POLCY OVER A PERIOD OF TIME.

8. AS REGARDS THE PUBLIC SECTOR DEFICIT,THE IMF MISSION BELIEVES THAT THE LIMIT ON THE CSSH DEFICIT OF 9,800 BILLION LIRE PREVIOUSLY ANNOUNCED BY THE ITALIAN GOVERNMENT FOR THE TREASURY, THE DEPOSIT AND LOAN FUND, AND THE AUTONOMOUS ENTITIES SHOULD BE RESPECTED. HOWEVER, THE CEILING MAY BE INCREASED TO 13,100 BILLION LIRE WHEN

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TAKING INTO ACCOUNT THE NEW SYSTEM FOR FINANCING THE DEFICITS
OF LOCAL GOVERNMENTS.

9. ALSO IN THIS CASE IN FULL AGREEMENT WITH THE ITALIAN DELEGATION,
THE IMF MISSION BELIEVES THAT THE CONCEPT OF THE DEFICIT SHOULD
BE EXTENDED TO A BROADER DEFINITION WHICH ALSO INCLUDES THE
SOCIAL INSURANCE WYSTEM, THE HEALTH SYSTEM, AND ENEL.
FOR THE DEFICIT USING THIS DEFINITION, A LIMITATION IS IMPOSED
FOR 1977 OF ABOUT 15,000 BILLION LIRE(16,500 BILLION LIRE INCLUDING
ENEL).

10. THE SERIES OF MEASURES ADPTED BY THE TALIAN GOVERNMENT BEGINNING
IN THE FALL OF 1976 IN THE AREA OF TAX AND PUBLIC TARIFF
INCREASES FOR TOTAL REVENUE OF ABOUT 5,000 BILLION LIRE APPEARS
USEFUL. HOWEVER, A NEED APPEARS TO BE EMERGING FOR A FURTHER
INCREASE IN REVENUES OR REDUCTION IN EXPENDITURES OF ABOUT 2,000
BILLION LIRE(OF WHICH 1,000 BILLION LIRE COUND BE USED TO FINANCE
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FISCALIZATION OF SOCIAL INSURANCE COSTS IN THE SECOND HALF OF 1977).

(MORE COMING....)

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11. THE MEASURES AIMED AT RESTORING CONTROL BY THE CENTRAL AUTHORITIES OVER THE FINANCING OF LOCAL GOVERNMENTS ARE ALSO VIEWED WITH APPROVAL. THE GOVERNMENT IS INVITED TO PURSUE EFFORTS IN THIS DIRECTION BY EXTENDING THE CENTRALIZATION OF

CONTROL TO COVER THE SOCIAL INSURANCE AND HEALTH SECTORS AND THE PRODUCTION OF INDISPENSABLE PUBLIC SERVICES (ELECTRIC ENERGY) THROUGH THE PREPARATION OF ANNUAL CASH BUDGETS AND LIMITATION OF EXPENDITURES, ESPECIALLY CURRENT EXPENDITURES (THUS FAVORING INVESTMENT EXPENDITURES).

12. AS AN INSTRUMENT FOR IMMEDIATE APPLICATION, A LIMIT IS SUGESTED FOR EXPENDITURES BY THE STATE IN 1977(55,450 BI LIRE) AND IT

IS SUGGESTED THAT IN THE APPROPRIATIONS BUDGET FOR 1978 THE INCREASE IN EXPENDITURES BE HELD TO NO MORE THAN 7 PERCENT.

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13. IN GENERAL THE AIM IS TO LIMIT THE INCREASE IN PAYMENT BY KEEPING THE GROWTH OF APPROPRIATED EXPENDITURES BELOW THAT OF NATIONAL INCOME IN NOMINAL TERMS.

14. THE INTRODUCTION OF A "TICKET MODERATEUR" (I.E. MINIMUM PAYMENT FOR MEDICINES) IS MENTIONED AS DESIRABLE AS A MEANS OF LIMITING EXPENDITURES OR OF PROVIDING FOR THEIR PARITAL FINANCING.

14. AS REGARDS THE EXPANSION OF TOTAL DOMESTIC CREDIT, THE IMF MISSIONPROPOSES TO REDUCE TO 30,000 BILLION IRE THE FIGURE OF 30,600 BILLION LIRE SUGGESTED BY THE ITALIAN AUTHORITIES. THE LIMIT IS DEFINED IN THE USUAL WAY AS THE SUM OF LOANS BY THE BANKS AND BY THE SPECIAL CREDIT INSTITUTES, THE DIRECT PLACEMENT OF BONDS BY BUSINESS AND PUBLIC BODIES IN THE MARKET AND THE DEFICIT OF THE PUBLIC SECTOR EXCLUDING THE PART FINANCED FROM THE CREDIT INSTRUMENTS PREVIOUSLY MENTIONED HERE.

15. THE REFERENCE PERIOD IS CHANGED FROM THE CALENDAR YEAR TO THE YEAR WHICH TERMINATES ON MARCH 31, 1978. THE AFOREMENTIONED EXPANSION

OF CREDIT, TAKING INTO ACCOUNT THE FORECAST PATTER OF PRDUCTION AND INVESTMENT, IS JUDGET TO BE ADEQUATE TO REDUCE INFLATIONARY PRESSURES AND TO LIMIT THE OUTFLOW OF FUNDS ABROAD.

16. AS CONCERNS DEVELOPMENT IN THE COST OF LABOR, THE IMF MISSION CONSIDERS THAT THE EFFORTS TAKEN TO DATE BY THE GOVERNMENT

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ARE HELPFUL IN REDUCING THE DEGREE OF INDEXATION OF WAGES AND IN
INCREASING PRODUCTIVITY, ALSO TAKING INTO ACCOUNT THE AGREEMENT
BETWEEN THE SOCIAL PARTNERS, AND IT INVITES THE GOVERNMENT TO
UNDERTAKE FURTHER EFFORTS IN THIS DIRECTION ALWAYS WITH THE AGREEMENT
OF THE SOCIAL PARTNERS.

17. IT BELIEVES THAT THE FISCALIZATION OF SOCIAL COSTS IN THE SHORT
RUN CONSTITUTES A USEFUL ALTERNATIVE TO EFFORTS AIMED AT REDUCING
THE INDEXATION OF LABOR COSTS AND INVITES THE GOVERNMENT TO TEXTEND
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THIS MEASURE THROUGH THE SECOND HALF OF 1977 . MOREOVER,
IT BELIEVES THAT THE ELIMINATION FROM THE WAGE ADJUSTMENT INDEX
OF INCREASES DUE TO THE INTRODUCTION OF TAX INCREASES TO FINANCE
THE FISCALIZATION OF SOCIAL COSTS IS AN INDISPENSABLE CONDITION
FOR ITS EFFECTIVE IMPLEMENTATION.

18. THE APPLICATION OF THE PROGRAM DESCRIBED ABOVE, AS AGREED
BY THE ITALIAN DELEGATION AND THE IMF.
SHOULD PERMIT A SIGNIFICANT REDUCTION IN THE RATE OF INCREASE
OF PRIVATE CONSUMPTION, AND BEGINNING FROM THE YEAR WHICH ENDS
ON MARCH 31, 1978, SHOULD RESULT IN A MODEST SURPLUS IN THE CURRENT
ACCOUNT OF THE BALANCE OF PAYMENTS. THE RATE OF INCREASE IN
COSTS AND PRICES SHOULD DECLINE IN THIS SAME PERIOD TO ABOUT
13 PERCENT FROM THE 22 PERCENT RECORDED IN THE COURSE OF THE
PRECEDING 12 MONTHS (FROM MARCH 1976 TO MARCH 1977) .

19. THE IMF MISSION BELIEVES THAT IT IS NOT IMPOSSIBLE TO
FORESEE IN THE COURSE OF 1978 A REDUCTION IN THE RATE OF INFLATION
TO 8 PERCENT AND INVITES THE GOVERMENT TO CONTROL CYCLICAL
DEVELOPMENTS
AND, AS NEEDED, ADOPT CORRECTIVE MEASURES AIMED AT ACHIEVING
THIS OBJECTIVE.

20. IN THE COURSE OF THE SAME YEAR, BEGINNING FROM AN INITIAL
CONDITION OF SURPLUS IN THE BALANCE OF PAYMENTS AND OF A
RAPID DECELERATION OF INFLATION, THE ITALIAN ECONOMY
WILL BE ABLE TO RECOVER AND XDEVELOP IN LINE WITH THE EVOLUTION
OF THE WORLD ECONOMY.

21. IT IS APPARENT THAT A NECESSARY PRECONDITION IS THAT COUNTRIES
WITH STABLE CURRENCIES AND A STRONG POSITION IN THEIR FOREIGN
ACCOUNTS MUST TAKE ACTIONS AIMED AT ASSURING VIGOROUS
INTERNATIONAL RECOVERY.GARDNER.

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Message Attributes

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